



CITY COUNCIL

AGENDA REQUEST

AGENDA OF:	09-06-11	AGENDA REQUEST NO:	VII-A
INITIATED BY:	PAULA KUTCHKA ACTING DIRECTOR OF HUMAN RESOURCES	RESPONSIBLE DEPARTMENT:	HUMAN RESOURCES
PRESENTED BY:	PAULA KUTCHKA ACTING DIRECTOR OF HUMAN RESOURCES	DEPARTMENT HEAD:	PAULA KUTCHKA ACTING DIRECTOR OF HUMAN RESOURCES
		ADDITIONAL DEPARTMENT HEAD (S):	N/A
SUBJECT / PROCEEDING:	2012 EMPLOYEE GROUP BENEFITS		
EXHIBITS:	LETTER OF AGREEMENT FOR SELF-FUNDED FIXED COSTS AND NEW DENTAL AND VISION COVERAGES FROM CIGNA		
CLEARANCES		APPROVAL	
LEGAL:	JOE MORRIS CITY ATTORNEY	ASST. CITY MANAGER:	KAREN GLYNN
PURCHASING:	TODD REED, CPPB PURCHASING MANAGER	ASST. CITY MANAGER:	N/A
BUDGET:	JENNIFER BROWN BUDGET & RESEARCH DIRECTOR	CITY MANAGER:	ALLEN BOGARD
BUDGET			
EXPENDITURE REQUIRED: \$		5,909,087 FY2012 (MED & DENT) 6,068,615 CALENDAR YEAR 2012 (MED & DENT)	
CURRENT BUDGET: \$		5,909,087 FY2012 (MED & DENT) 6,068,615 CALENDAR YEAR 2012 (MED & DENT)	
ADDITIONAL FUNDING: \$		N/A	
RECOMMENDED ACTION			
Authorize City Manager to enter into an agreement with Cigna and execute contracts for self-funded group medical insurance, fully insured group dental and voluntary vision insurance coverages.			

EXECUTIVE SUMMARY

In coordination with the Budget Office, the Human Resources Department began evaluating and projecting costs for employee group benefits in preparation for the Fiscal Year 2012 budget. In regard to the City's medical plan, as the 2010 plan year finalized and we began seeing claims data for the 2011 plan year, staff and our consultant, Gallagher Benefit Services, Inc., began to anticipate an unfavorable fully insured renewal.

In June 2011, staff received Cigna's renewal rate letter for 2012 which provided a fully-insured premium rate increase of more than 50%. As a result, the decision was made for staff to solicit proposals for both self-funded and fully-insured medical plans that mirror the City's current offerings: HMO, Open Access and Health Savings Account plans, as well as dental and vision.

An RFP was prepared that outlined specifically all desired plan design options as well as stringent requirements that all vendors had to meet. The RFP process was conducted in the month of June 2011. Proposals were received on June 30, 2011. In determining the best provider(s) for the City, an employee evaluation committee, including three employees from Human Resources, an Assistant City Manager, and staff from Gallagher Benefits evaluated all insurance proposals.

In determining the best providers for the City, the committee evaluated all proposals on six criteria:

- Competitive Rates and Guarantees
- Provider Network Discounts
- Provider Network and Participant Disruption
- Vendor Qualifications, Experience & Performance
- Administration of On-Line Enrollment
- Wellness Program

Using the evaluation criteria above, staff was able to narrow the potential candidates down to two vendors. Staff then directed our consultant, Gallagher Benefit Services, Inc., to request best and final offers from both on a fully insured and self-funded basis. The best and final offers received were evaluated by the committee based on medical plan design and administrative resources, wellness program, and cost. Interviews were also held with the vendors. This resulted in a recommendation to pursue a contract with Cigna for the following plans:

Group Medical Plan

2011 was the second year of a five year fully-insured contract that was renewable annually based on favorable premium rates with Cigna to provide group medical insurance. Going to Cigna in 2010, the City saw a reduction in monthly premiums of 11%. For year two, our current plan year, because of our partnership agreement and the City's commitment to wellness, CIGNA provided the City with a premium increase of 6.5%, but because we bundled additional coverages (life and disability plans) with Cigna our actual increase to monthly medical premiums was 6.0%. Recent claims experience has shown that the medical claims paid have actually been higher than the contracted premium amounts, which accounts for the large increase in 2012. As a result, the City did expect higher rates for FY 2012 working with proposed budget numbers.

After evaluating all fully insured and self funded information received, self funding the medical plan appeared to be the most viable option for the City. This viability was largely based on the \$1.25M one-time appropriation that could be used to fund the large claim reserve. Based on the best and final presentation, Cigna's self funded proposal was unanimously recommended. In addition, Cigna's best and final proposal and the recommended plan includes reducing the City's offering from 3 current options (HMO, Open Access and HSA) to 2 options (HMO and HSA). The Open Access plan is currently the plan least utilized based on the number of lives insured. Staff will be working with all plan participants as we transition our insurance program and offerings.

Therefore, staff recommends City Council authorize the City Manager to execute an agreement with Cigna and enter into contracts for self funded group medical plan coverage. Fixed costs as stated in Cigna's letter of renewal are projected based on employee and dependent assumptions. The cost will fluctuate with the types of plans chosen by employees and the number of employees and dependents on the plan at any given time. The expected total for the contract in calendar year 2012 is \$5.87 million, but cannot exceed \$6.53 million.

The FY2012 budget includes three months funding our current fully insured plan and nine months of funding for fixed costs plus claims costs. The annualized budget for the Cigna contract is \$5.53 million (\$1.13 million for fully insured months and \$4.40 million for self funded months) including all active employees, Retirees and COBRA participants.

Group Dental Plans

In late 2009, the City entered into a two-year rate guarantee contract with Cigna for dental coverage. The last year of the two year contract is 2011; therefore staff solicited proposals for DHMO and Indemnity plans. Proposals were received along with the Health Plans. In determining the best provider for the City, the committee also evaluated the proposals on the six criteria stated above.

Cigna is the incumbent carrier and their proposal matched our current plans and provided a rate increase of 6.93%, the lowest premium increase of all proposals. Therefore, staff recommends Council authorize the City Manager to execute an agreement and enter into a contract with Cigna for the group dental plans for an amount not to exceed \$356,003.

Voluntary Vision

The following plan is voluntary and paid for solely by the employee, as there are no City funds involved. The last year of the two year contract is 2011; therefore staff solicited proposals for vision coverage and proposals were received. In determining the best provider for the City, the committee also evaluated all proposals on the six criteria stated above.

Cigna is the incumbent carrier and their proposal matched our current plan. After reviewing the proposals, the committee has determined Cigna is the best fit for our organization. It is provided at a favorable rate for our employees, a 7.06% increase from current rates and provides employees with an ease of administration since this coverage will also be with Cigna. The plan allows for the employee to receive discounts by paying a monthly premium cost and co-pays for annual exams, lenses and frames. Therefore, staff recommends Council authorize the City Manager to execute an agreement and enter into a contract with Cigna for the optional vision plan, of which there is no cost to the City.



CIGNA HealthCare

August 24, 2011

2700 Post Oak Boulevard, Suite
700
Houston, Texas 77056

Ms. Paula J. Kutchka
Acting Director of Human Resources
Human Resources Department
City of Sugar Land
P.O. Box 110
Sugar Land, TX 77487-0110

Re: City of Sugar Land
Account Number: 3332131
Renewal Effective: 1/1/2012

Dear Paula,

We know the City of Sugar Land has many choices and it is our privilege to work with you and Gallagher. CIGNA continues to work diligently to help maximize the value of the City of Sugar Land's benefit program. We will continue to work with the City of Sugar Land team and Gallagher to help control the City's current and future total medical and dental costs while helping to improve the health and well-being of your employees and their families.

We are very pleased to confirm the January 1, 2012 renewal rates by line of coverage. The Medical program will convert from a fully-insured non-participating contract to an Administrative Services Only (ASO) self-funded contract effective January 1, 2012. The Dental and Vision benefit programs will renew on fully-insured non-participating contracts.

The offer made by Connecticut General Life Insurance Company is attached as Exhibits A, B, C, and D hereto and is firm. The Parties understand and acknowledge that this letter is a legally binding document which is valid and enforceable in a court of law.

If the terms of this Agreement are acceptable to you, please countersign below and return to the undersigned. Failure to countersign and return this Agreement to the undersigned by said date shall be evidence that the parties hereto have failed to reach an agreement on a material term.

If the terms of this LOA are acceptable to you, please countersign below.

Proud National Sponsor of the March of Dimes WalkAmerica® ... the Walk that Saves Babies

"CIGNA" or "CIGNA HealthCare" are registered service marks and refer to various operating subsidiaries of CIGNA Corporation. Products and services are provided by these operating subsidiaries and not by CIGNA Corporation. These operating subsidiaries include Connecticut General Life Insurance Company, Tel-Drug, Inc. and its affiliates, CIGNA Behavioral Health, Inc., Intracorp, and HMO or service company subsidiaries of CIGNA Health Corporation and CIGNA Dental Health, Inc. In Arizona, HMO Plans are offered by CIGNA HealthCare of Arizona, Inc. In California, HMO plans are offered by CIGNA HealthCare of California, Inc. In Virginia, HMO plans are offered by CIGNA HealthCare of Virginia, Inc. and CIGNA HealthCare Mid-Atlantic, Inc. In North Carolina, HMO plans are offered by CIGNA HealthCare of North Carolina, Inc. All other medical plans in these states are insured or administered by Connecticut General Life Insurance Company.

Ms. Paula Kutchka
August 24, 2011
Page 2

Connecticut General Life Insurance Company

By:



Name:

Michael J Koehle

Title:

Vice President

Read, Understood, Agreed and Accepted by:

City of Sugar Land

By:

Name:

Title:

Executed this ____ day of _____, in the year _____.

A

City of Sugar Land
3332131
1/1/2012

Plan Changes included in quote:
Change Applies To: Amount:

Dual Option: Kelsey/H.S.A.

City of Sugar Land

Dual Option: Kelsey/H.S.A. - ASO

1/1/2012

Current and Proposed Rates-Exhibit A

Vision		Current	Proposed
Hier	Subscribers	Current Total Rate	Proposed Total Rate
Employee Only	203	\$5.86	\$6.27
Employee + Spouse	66	\$11.74	\$12.56
Employee + Child(ren)	62	\$11.85	\$12.68
<u>Employee + Family</u>	<u>105</u>	<u>\$18.66</u>	<u>\$19.97</u>
Annual Total	436	\$55,901	\$59,814
Change			7.0%
DHMO		Current	Proposed
Hier	Subscribers	Current Total Rate	Proposed Total Rate
Employee Only	119	\$13.27	\$13.80
Employee + Spouse	18	\$22.57	\$23.47
Employee + Child(ren)	48	\$31.20	\$32.45
<u>Employee + Family</u>	<u>80</u>	<u>\$37.58</u>	<u>\$39.08</u>
Annual Total	265	\$77,873	\$80,988
Change			4.0%
DPPO		Current	Proposed
Hier	Subscribers	Current Total Rate	Proposed Total Rate
Employee Only	160	\$31.27	\$33.77
Employee + Spouse	54	\$55.00	\$59.40
Employee + Child(ren)	51	\$53.74	\$58.04
<u>Employee + Family</u>	<u>87</u>	<u>\$82.50</u>	<u>\$89.10</u>
Annual Total	352	\$214,697	\$231,873
Change			8.0%
GRAND TOTAL		\$348,471	\$372,675
Change			6.9%

Exhibit B

<u>Programs</u>	<u>H.S.A.</u>	<u>Kelsey</u>
PHS+ Network Access	\$ 12.50	\$ 12.00
Your Health First 200	\$ 5.25	\$ -
Health Advisor	\$ 1.00	\$ -
HIPAA Certificates	\$ 0.15	\$ 0.15
Total	\$ 18.90	\$ 12.15

City of Sugar Land

Dual Option: Kelsey/H.S.A. - ASO

1/1/2012

ASO Fees and Stop Loss Rates-Exhibit C

Admin and Access Fees	Lives	Renewal
H.S.A Administrative Fee PEPM	182	\$14.93
Kelsey Administrative Fee PEPM	424	\$14.93
Annual Adminstrative Costs		\$108,571
H.S.A Access Fee PEPM	182	\$18.90
Kelsey Access Fee PEPM	424	\$12.15
Annual Access Costs		\$103,097
Wellness Fund	606	\$6.78
CDHP Fee	182	\$4.94
Choicelinx	606	\$3.00
Incentive Points*	606	\$0.00
Medical Commission PEPM	606	\$0.00
<u>Dental Commission PEPM</u>	349	<u>\$0.00</u>
		\$81,909
Total Admin + Access		\$211,668
Total Admin + Access + Commissions + Other		\$293,577
Stop Loss	Lives	Renewal
H.S.A ISL PEPM	182	\$45.33
Kelsey ISL PEPM	424	\$45.33
Annual ISL Costs		\$329,640
* Pooling Point	\$125,000	
* Contract Type	Twelve/Twelve	
* Rx Accumulation	Yes	
* Commissions (Net or %)	Net	
ASL Rate PEPM	606	<u>\$6.62</u>
Annual ASL Costs		\$48,141
* Poolin g Point	\$125,000	
* Corridor Amount	120%	
* Contract Type	Twelve/Twelve	
* Rx Accumulation	Yes	
* Commissions (Net or %)	Net	
Total Stop Loss Costs		\$377,780
Total Fixed Costs		\$671,357

Wellness Fund = \$50,000

*Wellness dollars applied to Incentive Points program

Includes: PHS+, Health Advisor (H.S.A. only), YHF 200

City of Sugar Land**Dual Option: Kelsey/H.S.A. - ASO****1/1/2012****ASL Attachment Point Calculation-Exhibit D**

	H.S.A.		Kelsey		Total
	Medical	Rx	Medical	Rx	
= Expected Paid Claims	\$1,213,648	\$190,353	\$2,725,674	\$732,780	\$4,862,455
x <u>Corridor</u>	<u>120%</u>	<u>120%</u>	<u>120%</u>	<u>120%</u>	<u>120%</u>
Minimum Attachment Point	\$1,456,377	\$228,424	\$3,270,808	\$879,336	\$5,834,946
Projected Lives	182	182	424	424	<u>606</u>
Monthly Deductible Factors	\$666.84	\$104.59	\$642.85	\$172.83	\$802.39
	\$ 771.43		\$ 815.67		